

Can Do: Going Private Label Pays in Europe

By FAS European Staff

Exporters, how would you like to escape from worries about marketing your product overseas, yet still enjoy a ready-made consumer base and a consistent buyer? If so, private label exporting may be for you.

For companies that are more focused on the bottom line than on name-brand recognition, the private label arrangement can be ideal. Here's how it works: an established overseas company generally one with a strong customer base—buys your product and re-packages it under its own label.

In this way, companies lacking money or resources to manage a full-fledged product launch overseas can still have a presence on the shelves through private label sales.

Europe: Private Label Central

Europe, as it happens, is by far the most important continent for private label exports, both in terms of sales volume and value. The total turnover of private label sales in Europe is estimated at \$280 billion. In 1998, European private label sales grew by 5.9 percent, compared to 4.6 percent in 1995.

In Europe, store brands have been so successful they've often eroded the market shares of well-known brands. With a turnover of \$232.4 billion and more than 83 percent of all private label sales in Europe for 1998, the European Nations is a force to be reckoned with in terms of private label.

And who leads the private-label market in the region? The United Kingdom,

thanks to supermarket powerhouses such as Tesco and Sainsbury, which are heavily invested in private label use. Both the high level of competition among its grocery chains and the deep penetration of non-food private label retailers such as Marks & Spencer have accelerated the growth of private label food products in the United Kingdom.

Private Label Pays for Exporters

With up to 20 percent of market share (more in some categories), private labels not only offer the consumer a lower priced alternative for name brands, but also add extra cachet to store images.

The private label trend was not always so powerful in Europe: it took more than 20 years to reach its current strong position in Western Europe's market.

Nowadays, European supermarkets target unique private label products to different segments of their customer base as a

way of enhancing customer loyalty.

Premium private label items usually bear the name of the store, as do specialty foods that target local or regional tastes. Economy lines like "Euroshopper" often cut across international boundaries.

Growth Should Continue

Private label product growth has been strong in Europe in recent years, and there are no signs that the pace will slow down. In the coming years, it is expected to outperform the retail sector as a whole.

Euromonitor, a market research firm, forecasts 26-percent growth in Europe's private label sales between 1997 and 2002. Growth of non-food private labels will outstrip those of food, however.

By 2002, nearly 14 percent of all European retail sales are expected to be under private label.

However, considerable regional differences exist. In northern Europe, where the



60034

supermarket structure is generally fully developed and the trade is highly concentrated, the private label market share seems destined not to grow very much.

Selling in the European Union

Several factors affect how well private labels sell in a particular country. Whenever consumers are open to trying different brands, demand for private label food is growing. The assortment of supermarket chains may also influence the total share of private labels in a country.

Of course, in a line of foods where one name dominates, private label sales are likely to be inhibited. Often, in a market where three brand-name manufacturers are dominant, retailers do not launch a private label concept.

What U.S. Exporters Need To Know

Due to the concentration of buying power in Europe, U.S. manufacturers can expect to deal with fewer firms and fill larger orders when working with private-label sales.

Regional and local tastes and preferences can be expected to affect export demand and, in turn price. On the other hand, sophisticated electronic purchasing and distribution systems may cause prices to equalize.

To develop ties with small European retailers, U.S. firms must have a warehouse or distribution facility in Europe capable of handling small and frequent orders. Securing that facility, of course, requires a financial commitment to the market.

Snapshot: Belgium and Luxembourg

After the United Kingdom, Belgium is second in private-label market share, followed closely by Germany.

Belgium's private label sales have about

a 35-percent market share in value and therefore account for about one of every three products sold.

Private label's volume share of dry grocery items advanced in 2000. These items also lead advances in value, along with alcoholic beverages and frozen foods.

Since 1997, the supermarket chain Delhaize 2 has opened more than 25 stores in Belgium. Almost all of its products are private label. Other private label power-

houses are food retailers Aldi, HEMA and Marks & Spencer.

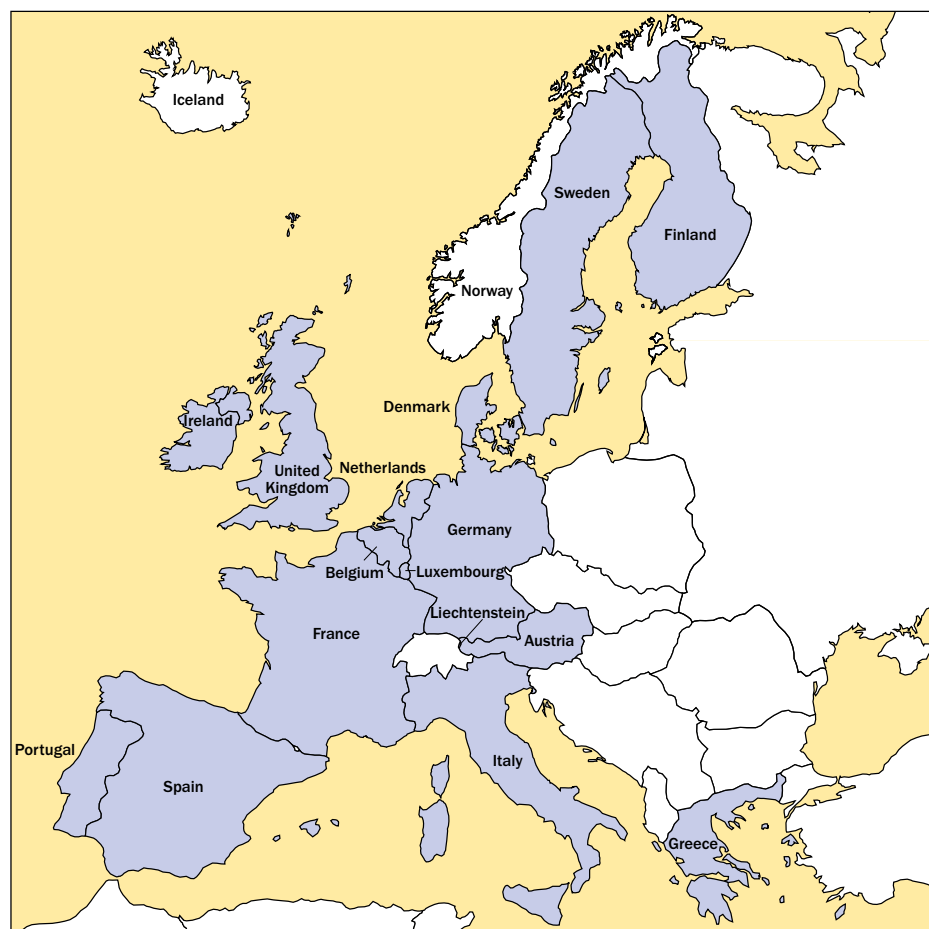
In most of these stores, the emphasis is on convenience products, with a large number of the 3,500 stocked items in the area of pan-ready foods and ready-to-heat meals.

Belgian Consumers and Private Label

More shoppers are discovering and relying on private-label products in Belgium. According to a survey of MORI, a con-

Who's Who in the EU?

The Member States are: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Luxembourg, Italy, Portugal, Spain, Sweden, the Netherlands and the United Kingdom.



sumer research firm, more than half of customers frequently buy private label products.

This trend should expand and diversify. Many Belgian shoppers said they would like to see a wider variety of private label goods, especially in their favorite supermarket chains.

A Closer Look: The Netherlands

Dutch supermarkets have invested in private labels for some foods, although not as heavily as Belgium or the United Kingdom. But there are several important products.

For example, market leader Albert Heijn sells meat and meat products under its “AH” label alone, while supermarket chain Super De Boer offers pork under its “Best-Meat” label.

Super De Boer also carries its own apple brand, “Tentation,” while supermarket chain C1000 does the same with “Roblos.”

While market share has been slipping in the Netherlands, the appetite for private-label products remains good. More than half of all customers say that they frequently buy the retailers’ brands. In addition, one in four consumers claim to be more likely to buy private labels now than a year ago.

Perishable goods lead private label performance in the Netherlands. Delicatessen items have the highest value share at nearly 30 percent. Dairy posts the greatest volume share, almost 33 percent.

A Closer Look: Italy

The introduction of new private-label products in Italy’s market started off slowly, but is now expanding at a rate comparable to that in other EU countries.

Perhaps this slow but steady growth has



to do with a strong Italian tradition of culinary quality—and a perception of private-label products as budget-wise rather than flavorful.

To make inroads, exporters and food stores must stress that private-label products can be of exceptional quality. In fact, any new product must meet or exceed their expectations. As the private label concept becomes more widely accepted, the “best value for the money” concept will increase in attractiveness.

Conquering Europe With Cans

Sales can increase dramatically when U.S. companies and their European retailers work in alliance to offer a broad variety

of good quality and innovative private-label products.

Such relationships enable U.S. exporters to be partners in product development. There are advantages on both sides: the store knows what customers in its region want, but it’s up to the U.S. supplier to devise creative ways to meet their needs. It also doesn’t hurt exporters to support retailers with powerful marketing campaigns and targeted merchandising.

Make the Show; Make the Sale

Another way to make the most of the European market is to discover the annual Private Label Manufacturer (PLMA) Show.

This highly specialized show, held in

Amsterdam for over a decade, has grown into a significant venue to place U.S. private label products overseas.

PLMA is restricted; only manufacturers and exclusive agents may exhibit, and only retailers and supermarket buyers may attend.

In 2000, the show had more than 2,700 exhibit stands representing manufacturers from more than 50 countries. There were a few U.S. exhibitors in 2000, but American themes and tastes were nevertheless notably present. That speaks to a potential demand that isn't currently filled by U.S. products.

The PLMA show is a good venue to find partners in European countries, provided your company has innovative or novel products that are price-competitive.

A company must also have sufficient capacity and flexibility to adapt product lines to European tastes. Logistical requirements include: European distribution and financing know-how, as well as European warehouse space and distribution facilities or contacts. ■

Exporters with questions about a particular region are encouraged to contact the following:

FAS' Office of Agricultural Affairs in the American Embassy, Brussels, Belgium. Tél.: (011-32-2) 508-2437; Fax: (011-32-2) 508-2148; E-mail: Agbrussels@fas.usda.gov.

FAS' Office of Agricultural Affairs in the American Embassy, The Hague, The Netherlands (office covers The Netherlands, Belgium, Luxembourg, Denmark and Iceland.) Tél.: (011-31-70) 310-9299; Fax: (011-31-70) 365-7681; E-mail: Agthehague@fas.usda.gov

FAS' Office of Agricultural Affairs in the American Embassy, Rome, Italy. Tél.: (011-390-6) 4674-2362, Fax: (011-390-6) 478-87008; E-mail: agrome@fas.usda.gov

Thoughts on the Red, White and Blue

Foods of the United States enjoy a positive image in Europe, particularly among the younger generation. The national colors, red, white and blue, are a draw throughout Europe that can boost marketing and promotional efforts. They may, however, also "color" consumer expectations. American foods do not always enjoy a "fine cooking" or "haute cuisine" reputation.

In addition, American manufacturers may face some subtle or implied biases. Europeans are more disposed to buy their own products, with which they may identify.

Trends That Make Sales

The following trends will impact European private-label products sales and can help markets expand:

- Organic foods
- Frozen-food convenience
- Short-life and high-margin foods
- Healthy and functional foods

While not strong now, there are other food trends that are expected to affect sales in the future:

- Dairy, breakfast foods, soft drinks, or pet food
- Full-fat, full-flavored foods
- Dietary supplements

A Union Within the Union

While Belgium, The Netherlands and Luxembourg belong to the European Union, they also enjoy the advantages of a special union called Benelux in which they further cooperate in a number of mutual matters, including standardizing certain regulations.

Cooperation between Belgium and Luxembourg is even greater than with the Netherlands since they share the same monetary unit, the euro.